

Message Text

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ACTION EB-08

INFO OCT-01 NEA-10 ISO-00 AGRE-00 CEA-01 CIAE-00 COME-00

DODE-00 FRB-03 H-01 INR-07 INT-05 L-03 LAB-04 NSAE-00

NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04 ITC-01

TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00 OMB-01 (ISO) W

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FM AMEMBASSY KATHMANDU

TO SECSTATE WASHDC 7298

INFO AMEMBASSY NEW DELHI

LIMITED OFFICIAL USE KATHMANDU 0352

E.O. 11652 N/A

TAGS: ETRD, EFIN, NP

SUBJ: GON REDUCES CUSTOMS & EXERCISE TAXES

1. MINISTER OF FINANCE BEHKH THAPA ON JAN. 26 ANNOUNCED A PACKAGE OF CUSTOMS AND EXCISE DUTY REDUCTIONS DESIGNED TO STIMULATE THE DOMESTIC ECONOMY RANGING FROM 10 TO 50 PERCENT ARE TEXTILES, PETROLEUM PRODUCTS, NYLON GOODS, READY-MADE GARMENTS, COSMETICS, ELECTRICAL GOODS, VEHICLE SPARE PARTS, AND SHOES. EXCISE DUTIES ON LOCAL MANUFACTURERS HAVE BEEN REDUCED FOR ITEMS SUCH AS CIGARETTES, BEER, AND SOAP, AND ELIMINATED FOR CERTAIN AGRO-BASED PRODUCTS SUCH AS SOFT DRINKS AND CANNED FRUIT. EXPORT DUTIES WERE ELIMINATED ON ALL BUT 21 OF SOME 200 LISTED EXPORT ITEMS.

2. DR. THAPA IN A PRESS CONFERENCE EXPLAINED THAT, ALTHOUGH A JUST-COMPLETED MID-YEAR REVIEW CONCLUDED THAT THE COUNTRY'S CURRENT ECONOMIC PERFORMANCE WAS "GENERALLY SATISFACTORY", IT WAS FELT THAT MEASURES WERE NEEDED TO STIMULATE COMMERCIAL ACTIVITY AND TO PRECIPITATE AN "EXPANSIONARY PHASE". HE STATED THAT WHILE THESE TAX REDUCTIONS MIGHT RESULT IN A N INCREASED BUDGETARY DEFICIT FOR THE

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YEAR, THE BASIC MONETARY AND FINANCIAL CONDITION OF THE COUNTRY IS SOUND ENOUGH TO TOLERATE SUCH AN INCREASE.

3. COMMENT: THIS IS AN INTERESTING EXPERIMENT. GIVEN THE NATURE OF NEPAL'S ECONOMY, THE DEGREE OF PRICE-ELECTRICITY IN CONSUMER DEMAND IS NOT CLEAR. DOMESTIC COMMERCIAL AND INDUSTRIAL ACTIVITY CERTAINLY HAS NOT BEEN BUOYANT, BUT THIS IS DUE

TO PSYCHOLOGICAL AS MUCH AS ECONOMIC FACTORS. WHETHER THE BUSINESS SECTOR WILL RESPOND TO SUCH FISCAL "FINE TUNING" REMAINS TO BE SEEN. GIVEN THE INNATE HYPER-CONSERVATISM OF THE NEPALESE BUSINESS COMMUNITY, TOGETHER WITH A GRWOING DISCONTENT DURING THE PAST YEAR WITH (PERCEIVED) GON POLICY TOWARD THE PRIVATE SECTOR, IT COULD WELL BE THAT THIS ACTION WAS DESIGNED FOR ITS SYMBOLIC VALUE AS MUCH AS ANYTHING, I.E. A SIGNAL TO THE BUSINESS COMMUNITY THAT THE GOVERNMENT IS ERIOUS ABOUT COOPERATING WITH THE PRIVATE SECTOR AND LOOKING TO IT AS VITAL ELEMENT IN NEPAL'S DEVELOPMENT. IT IS OTHERWISE HARD TO EXPLAIN THE REDUCTION IN IMPORT DUTIES ON CONSUMER PRODUCTS, WHICH WHILE SOMEWHAT BENEFITING THE CONSUMER COULD NOT BE EXPDCTED TO PROVIDE A STIMULUS TO THE DOMESTIC ECONOMY AS SUCH. (INASMUCH AS INDIAN MANUFACTURERES WILL BE THE CHIEF BENEFICIARIES OF THESE IMPORT DUTY REDUCTIONS, IT IS ALSO CONCEIVABLE THAT BEHIND-THE-SCENE MANUEVERING IN REGARD TO THE SOON-TO-BE RENEWED TRADE AND TRANSIT TALKS WITH INDIA IS ALSO INVOLVED.)

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